

State of Alaska FY2003 Governor's Operating Budget

Department of Administration Risk Management BRU/Component Budget Summary

BRU/Component: Risk Management

(There is only one component in this BRU. To reduce duplicate information, we did not print a separate BRU section.)

Contact: Brad Thompson, Director

Tel: (907) 465-5723 **Fax:** (907) 465-3690 **E-mail:** Brad_Thompson@admin.state.ak.us

Component Mission

To manage the state's financial exposure due to loss.

Component Services Provided

Using contract independent claims adjusters and in-house defense counsel (Department of Law), Risk Management operates a comprehensive self-insurance program that promptly resolves the state's property and casualty claims more cost effectively than through conventional commercial insurance programs.

Component Goals and Strategies

- Act as the insurance carrier for each State agency, funding all sudden and accidental property and casualty claims
- Purchase high limit excess insurance protection for catastrophic loss exposure.
- Establish annual rates for agencies based on five year averages to allow agencies to plan for risk management cost.

Key Component Issues for FY2002 – 2003

Risk Management, exclusively funded by interagency receipts, pays all claim settlements and defense costs as they are due and payable, drawing from the Catastrophic Reserve Account (CRA) for large individual property or liability losses and whenever there is insufficient appropriation to meet ongoing claim obligations.

Financing of the State's comprehensive self-insurance program has increasingly relied upon the CRA to supplement the operating budget to meet the actual cost of self-insured claims each year. Over the last five fiscal years, Risk Management has averaged claims loss expenditures of \$4 million beyond authorized appropriations. This account is annually refilled by a year-end "sweep" of unexpended general funds from other state operating budgets, up to a \$5 million limit. As general fund budgets continue to be reduced, the available sweep has declined. The department is again proposing new legislation (working with the Office of Management and Budget) to create a new source of funding for the CRA as an alternative and reliable funding mechanism to meet the state's ongoing cost of claims and avoid supplemental fund requests for individual judgments.

Steep increases in premiums are very likely at next years' renewals (FY2003 coverage) as a result of huge losses impacting property and casualty reinsurance markets for the losses incurred in the September 11, 2001 tragic events. Increased premium funding is necessary to continue comprehensive catastrophic insurance coverage protecting State agency activities and operations.

Major Component Accomplishments in 2001

- Directed Court Plaza Building heating fuel spill response, temporary relocation, cleanup, repair, remodel with code upgrades while performing extensive air monitoring to address health and safety concerns
- Competitively procured new independent adjusting firms for workers' compensation claims to improve quality and timeliness of claims services
- Provided coverage for M/V Columbia fire, towing expenses and extensive shipyard repair of electrical system
- Funded workplace violence, marine employee fire response, workplace safety and emergency medical training programs and limited security patrol services
- Participated with agency safety committees focusing on workers' compensation loss trends to develop prevention strategies
- Addressed high risk agency supervisors explaining tort liability, review operating practices to mitigate future loss exposures

Statutory and Regulatory Authority

AS 23.30.045 Employer's liability for compensation
AS 23.30.090 Self-insurance certificates
AS 37.05.287 Insurance for State assets
AS 37.05.289 State insurance catastrophe reserve account
AS 09.50.250 Actionable claims against the State
AS 44.21.040 Records or accounts of claims and warrants
AS 09.50.270 Payment of judgment against the State

Key Performance Measures for FY2003

Measure:

The average cost of workers' compensation claims.
Sec 13 Ch 90 SLA 2001(HB 250)

Alaska's Target & Progress:

The average cost of a workers' compensation claim for the period January 1, through June 30, 2001, was \$4,520. The average cost during the period July 1, through September 30, 2001, is \$4,103.

Benchmark Comparisons:

We currently have no benchmark information for this performance measure.

Background and Strategies:

The Division of Risk Management currently has no control of the cost or incidence of workers' compensation claims.

Measure:

The number of recurring claims.
Sec Ch 90 SLA 2001(HB 250)

Alaska's Target & Progress:

During the period January 1, through June 30, 2001 there were 55 recurring workers' compensation claims. For the period July 1, through September 30, 2001 there were 10 recurring claims.

Benchmark Comparisons:

We currently have no benchmark information for this performance measure.

Background and Strategies:

The Division of Risk Management currently has no control over the number of recurring workers' compensation claims.

Measure:

The amount paid for insurance compared to the value of property covered.
Sec 13 Ch 90 SLA 2001(HB 250)

Alaska's Target & Progress:

In FY2001 the Division of Risk Management paid total premiums of \$965,000 for property valued at \$2,926,489,255, or \$.33 per \$1,000 of property value. For FY2002, property valued at \$3,127,049,559 is insured with a premium of \$1,508,333, or \$.48 per \$1,000 of property value.

Benchmark Comparisons:

We currently have no benchmark information for this performance measure.

Background and Strategies:

Each year the Division of Risk Management works to secure the best available property premium rate.

Risk Management

Component Financial Summary

All dollars in thousands

	FY2001 Actuals	FY2002 Authorized	FY2003 Governor
Non-Formula Program:			
Component Expenditures:			
71000 Personal Services	401.2	447.1	466.1
72000 Travel	9.8	17.4	17.4
73000 Contractual	22,799.9	22,875.8	23,865.8
74000 Supplies	5.8	10.0	10.0
75000 Equipment	26.5	3.5	3.5
76000 Land/Buildings	0.0	0.0	0.0
77000 Grants, Claims	0.0	0.0	0.0
78000 Miscellaneous	0.0	0.0	0.0
Expenditure Totals	23,243.2	23,353.8	24,362.8
Funding Sources:			
1007 Inter-Agency Receipts	23,243.2	23,353.8	24,362.8
Funding Totals	23,243.2	23,353.8	24,362.8

Estimated Revenue Collections

Description	Master Revenue Account	FY2001 Actuals	FY2002 Authorized	FY2002 Cash Estimate	FY2003 Governor	FY2004 Forecast
Unrestricted Revenues						
Unrestricted Fund	68515	506.0	506.0	506.0	506.0	0.0
Unrestricted Total		506.0	506.0	506.0	506.0	0.0
Restricted Revenues						
Interagency Receipts	51015	23,243.2	23,353.8	23,353.8	24,362.8	24,418.4
Restricted Total		23,243.2	23,353.8	23,353.8	24,362.8	24,418.4
Total Estimated Revenues		23,749.2	23,859.8	23,859.8	24,868.8	24,418.4

Risk Management**Proposed Changes in Levels of Service for FY2003**

No significant change in the level of service is expected.

Summary of Component Budget Changes**From FY2002 Authorized to FY2003 Governor***All dollars in thousands*

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
FY2002 Authorized	0.0	0.0	23,353.8	23,353.8
Adjustments which will continue current level of service:				
-Year 3 Labor Costs - Net Change from FY2002	0.0	0.0	9.0	9.0
Proposed budget increases:				
-Increased Cost of Risk for Workers' Compensation and Other Insurance	0.0	0.0	1,000.0	1,000.0
FY2003 Governor	0.0	0.0	24,362.8	24,362.8

Risk Management

Personal Services Information

Authorized Positions		Personal Services Costs		
	<u>FY2002</u>	<u>FY2003</u>		
	<u>Authorized</u>	<u>Governor</u>		
Full-time	6	6	Annual Salaries	349,762
Part-time	0	0	COLA	9,326
Nonpermanent	0	0	Premium Pay	0
			Annual Benefits	116,582
			<i>Less 2.01% Vacancy Factor</i>	(9,579)
			Lump Sum Premium Pay	0
Totals	6	6	Total Personal Services	466,091

Position Classification Summary

Job Class Title	Anchorage	Fairbanks	Juneau	Others	Total
Accountant III	0	0	1	0	1
Accounting Clerk II	0	0	1	0	1
Claims Administrator	0	0	2	0	2
Division Director	0	0	1	0	1
Risk Manager	0	0	1	0	1
Totals	0	0	6	0	6